

SOUTHERN WATER SERVICES LIMITED

**DIRECTORS' REPORT
AND ACCOUNTS FOR THE YEAR ENDED
31 MARCH 2005**

Registered No. 2366670



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SOUTHERN WATER SERVICES LIMITED

Directors' Report and Accounts for the year ended 31 March 2005

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REPORT OF THE DIRECTORS

The directors present their report and the audited accounts for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the Company, also referred to as SWS, are the provision of water supply and wastewater services in the south-east of England. The Company supplies water to over 2.3 million customers and provides wastewater services to 4.5 million customers.

Turnover in 2004/05 increased by 4.4% to £475.0m (2003/04 £455.1m) resulting from an increase in charges and growth. Cost of sales increased by 5.4% in 2004/05 to £265.8m (2003/04 £252.2m). Administration expenses decreased by 13.4% to £25.9m (2003/04 £29.9m). The overall increase in costs results from the effects of inflation together with increases in depreciation and costs arising from newly commissioned schemes, offset by operating efficiencies.

RESULTS AND DIVIDENDS

Profit after taxation for the financial year amounted to £67.2 million (2004: £58.4 million). The directors recommend a final dividend of £89.29 per ordinary share (2004: £60.71) which together with an interim dividend totalling £714.28 per ordinary share (2004: £956.40) gives a total dividend of £803.57 per ordinary share for the year (2004: £1,017.11). The Company also paid preference dividends amounting to £13.7m (2004: £9.5m) with class A1 shareholders receiving £6.0m (2004: £4.2m) and class B shareholders £7.7m (2004: £5.3m). Class A2 shareholders did not receive a dividend as the Company did not meet the outperformance requirements outlined in note 18. The aggregate dividends on the ordinary and preference shares amount to £58.7m (2004: £66.5m). In September 2005 it is expected class A1 shareholders will be paid a dividend of £3.0m, class A2 £nil and class B £3.8m. The retained profit for the year of £8.5 million (2004: loss of £8.1 million) has been transferred to reserves.

FUTURE DEVELOPMENTS

The next year is the first of the new five-year regulatory period. During this period, the Company will focus on delivering its large investment programme, and achieving ongoing operational performance targets as detailed in its Monitoring Plan to OFWAT.

SOUTHERN WATER SERVICES LIMITED

POST BALANCE SHEET EVENTS

In April 2005 SWS outsourced some of its key capital investment programme work to '4Delivery Limited', a joint venture vehicle owned by United Utilities (40%), Costain (40%) and Montgomery Watson Harza (20%). Under the contract, 4D is required to manage, design and deliver 255 schemes, which are all stand alone construction projects for the modification or extension of existing water mains, sewers, water supply works and wastewater treatment works. The total value of the contract is approximately £750m.

A subsidiary company of the company, Southern Water Services (Finance) Limited (SWSF) has raised approximately £500m of additional finance in May 2005 and will on-lend this to SWS. The funds will be applied by SWS for its general corporate purposes or used to repay or service the issuer's financial indebtedness.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year ended 31 March 2005 were as follows:

Robert Thian (Chairman)
Martin Baggs
Barrie Delacour
Howard Goodbourn
David Golden
Paul de Rosen
Donald Workman (appointed 1 October 2004)
David Alexander (appointed 10 February 2005)
Simon MacDonagh (appointed 15 March 2005)
John O'Brien (appointed 15 March 2005)
Anthony Fegan (resigned 1 September 2004)
David Stainthorpe (resigned 30 September 2004)
Rory Cullinan (resigned 1 October 2004)
Jean Claude Banon (resigned 10 February 2005)
Francois Darley (resigned 15 March 2005)
Stuart Derwent (resigned 17 March 2005)
John Harris (resigned 31 March 2005)

Steven Marshall was appointed a director post year-end on the 19 April 2005.

None of the directors who held office during the financial year had any disclosable interests in the shares of the Company. No director has, or has had, a material interest, directly or indirectly, at any time during the year under review in any contract significant to the Company's business

RESEARCH AND DEVELOPMENT

The improvement of existing services and processes, together with the identification and development of new technology and solutions, are important aspects of the Company's strategy to enhance the quality of service to customers and improve methods of working. Research and development expenditure for the year amounted to £1.5 million (2004: £1.7 million).

SOUTHERN WATER SERVICES LIMITED

EMPLOYEES

Employee involvement

The Company recognises the importance of its employees and is committed to effective two-way communication and consultation.

The Company has established Business Involvement Groups to facilitate meaningful consultation between Company Management and employees through elected Employee Representatives. The Groups meet regularly at both functional and company-wide levels.

The Company also recognises the rights of every employee to join a trade union and participate in its activities. SWS has a single union agreement with Unison.

The Company publishes its own in-house newspaper, 'Southern Water News' on a regular basis, and also produces, 'Waterline', a county newsletter at a more local level. General information is posted on the Company Intranet and regular team briefing sessions are also held.

Equal opportunity

SWS policy is to promote equality of opportunity in recruitment, employment continuity, training and career development. The policy is designed to ensure that equal opportunity in these areas extends as far as practicable to people with disabilities. The Company is a member of the Employers' Forum on Disability, which supports the efforts to meet the needs of the disabled for employment and access to the Company and its buildings.

Health and safety

The Company recognises its duties to make proper provision for the health, safety and welfare at work of its employees.

Every employee receives a copy of the corporate policy statement on health and safety. There are regular meetings of employee representatives and managers to consider all aspects of health and safety, and there is a health and safety management review group which ensures that there is an adequate system for meeting the company's responsibilities for health and safety to its staff, customers and members of the public.

SWS provides an internal occupational health service for employees, including the provision of physiotherapy. These services have been developed and are continuously reviewed to ensure they meet the needs of the business and our employees at work.

SOUTHERN WATER SERVICES LIMITED

CREDITOR PAYMENT POLICY AND PRACTICE

The Company's current policy and practice concerning the payment of its trade creditors is to follow the Better Payment Practice Code to which it is a signatory. Copies of the Code may be obtained from the Department of Trade and Industry or from the website www.payontime.co.uk.

The Company's policy and practice is to agree terms of payment when agreeing the terms of the transaction, to include the terms in contracts and to pay in accordance with its contractual and legal obligations. The Company's trade creditor days at 31 March 2005 were 36 days (2004: 44 days).

ENVIRONMENTAL ISSUES

The Company is committed to meeting or improving upon legislative and regulatory environmental requirements and codes of practice, and aims to contain the environmental impact of its activities to a practicable minimum.

SWS's environmental performance is reported in its annual Sustainability Report. The Company recognises its responsibility to operate within a framework that supports sustainable development and has established, where possible, indicator targets which are measurable. Performance against these targets is monitored and reported regularly.

CHARITABLE DONATIONS

The company made donations of £53,000 (2004: £25,000) to a variety of charities over the year.

No political donations were made.

LAND AND BUILDINGS

In the opinion of the directors, the market value of land is significantly more than its book value.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare Accounts for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period.

Having assessed the future funding requirements of the Company, the directors are of the opinion that it is appropriate for the Accounts to be prepared on a going concern basis.

SOUTHERN WATER SERVICES LIMITED

DIRECTORS' RESPONSIBILITIES (continued)

The directors confirm that suitable accounting policies have been used and applied consistently as set out in note 1 to the Accounts (Accounting policies). They also confirm that reasonable and prudent judgements and estimates have been made in preparing the Accounts for the year ended 31 March 2005 and that applicable accounting standards have been followed, subject to any material departures disclosed and explained.

The directors are responsible for ensuring that the Accounts are published, and where they are published on the Internet, for the maintenance and integrity of the website. Uncertainty regarding legal requirements is compounded as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of Accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the annual general meeting.

Approved by the Board of Directors and signed on behalf of the Board.

A handwritten signature in black ink, appearing to read 'Kevin Hall', is written over a circular stamp or seal.

Kevin Hall
Secretary
21 June 2005

SOUTHERN WATER SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2005

	Notes	2005 £m	2004 £m
Turnover	1,2,3	475.0	455.1
Cost of sales	3	(265.8)	(252.2)
Gross profit		<u>209.2</u>	<u>202.9</u>
Administrative expenses	3	(25.9)	(29.9)
Other operating income	3	1.5	1.6
Operating profit and profit on ordinary activities before interest and taxation		<u>184.8</u>	<u>174.6</u>
Profit on disposal of fixed assets		3.0	3.8
Net interest and similar charges	6	(102.6)	(93.4)
Profit on ordinary activities before taxation	4	<u>85.2</u>	<u>85.0</u>
Tax on profit on ordinary activities	7	(18.0)	(26.6)
Profit on ordinary activities after taxation	19	<u>67.2</u>	<u>58.4</u>
Dividends	8,19	(58.7)	(66.5)
Retained profit / (loss) for the financial year	19	<u><u>8.5</u></u>	<u><u>(8.1)</u></u>

The above results relate entirely to continuing operations. The Company has no recognised gains and losses other than those included in the profit above and therefore no separate statement of total recognised gains and losses has been presented.

The Notes on pages 9 to 34 form part of these accounts.

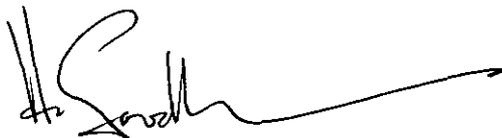
SOUTHERN WATER SERVICES LIMITED

BALANCE SHEET

As at 31 March 2005

	Notes	2005 £m	2004 £m
Fixed assets			
Tangible assets	9	2,754.9	2,711.5
Investments	10	<u>29.2</u>	<u>29.2</u>
		2,784.1	2,740.7
Current assets			
Stocks	11	1.0	1.4
Debtors: amounts falling due within one year	12	106.1	104.7
Debtors: amounts falling due after one year	13	812.3	816.6
Cash and deposits		<u>239.4</u>	<u>96.6</u>
		1,158.8	1,019.3
Creditors: amounts falling due within one year	14	<u>(196.0)</u>	<u>(225.2)</u>
Net current assets		962.8	794.1
Total assets less current liabilities		3,746.9	3,534.8
Creditors: amounts falling due after more than one year	15	(2,257.1)	(2,062.4)
Provision for liabilities and charges	16	(383.6)	(375.9)
Grants and contributions	17	(43.7)	(42.5)
Net assets		<u>1,062.5</u>	<u>1,054.0</u>
Capital and reserves			
Called up share capital	18	0.4	0.4
Share premium	19	306.0	306.0
Profit and loss account	19	756.1	747.6
Total shareholders' funds (including non-equity interests)		<u>1,062.5</u>	<u>1,054.0</u>

The accounts on pages 6 to 34 were approved by the Board on 21 June 2005 and signed on its behalf by:



Howard Goodbourn
Finance Director

SOUTHERN WATER SERVICES LIMITED

CASH FLOW STATEMENT

for the year ended 31 March 2005

	Notes	2005 £m	2004 £m
Net cash inflow from operating activities	20	301.6	249.8
Returns on investments and servicing of finance			
Issue costs of new loans		(0.6)	(53.7)
Interest paid		(152.3)	(134.8)
Interest received		65.1	43.5
Non – equity dividends		(13.7)	(9.5)
Net cash outflow from returns on investments and servicing of finance		<u>(101.5)</u>	<u>(154.5)</u>
Taxation		(16.9)	(29.5)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(189.4)	(221.0)
Receipt of grants and contributions		10.0	10.3
Disposal of fixed assets		4.5	2.2
Net cash outflow for capital expenditure and financial investment		<u>(174.9)</u>	<u>(208.5)</u>
Acquisitions			
Acquisition of SWSF		-	(29.2)
Equity dividends paid		(43.4)	(53.6)
Net cash outflow before financing		<u>(35.1)</u>	<u>(225.5)</u>
Financing			
Increase in borrowings		156.5	2,133.5
Premium arising on new loans		18.5	-
Repayment of borrowings		-	(1,210.6)
Repayment / (issue) of long-term loan		4.3	(816.6)
Proceeds from share issues		-	260.0
Net cash inflow from financing		<u>179.3</u>	<u>366.3</u>
Increase in net cash		<u>144.2</u>	<u>140.8</u>
Reconciliation to net debt			
Net debt at beginning of year		(1,996.1)	(1,257.3)
Increase in net cash		144.2	140.8
Movements in borrowings		(156.5)	(922.9)
Loan premium received		(18.5)	-
Debt issue costs		0.6	52.0
Non cash items		(21.0)	(8.7)
Net debt at end of year		<u>(2,047.3)</u>	<u>(1,996.1)</u>

Note: The prior year numbers in the reconciliation to net debt have been restated to include the debt issue costs.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

1 Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and, subject to the treatment of infrastructure grants and contributions described below, with the requirements of the Companies Act 1985.

Basis of preparation

The accounts contain information about SWS as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The Company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated accounts as it and its subsidiary undertaking are included by full consolidation in the consolidated accounts of the holding company, Southern Water Capital Limited.

Turnover

Turnover represents the income receivable (excluding value added tax) in the ordinary course of the business for goods and services provided and, in respect of unbilled charges, includes an accrual for measured income.

Measured income arises from customers who have meters fitted at their premises. Therefore amounts billed are based on actual or estimated water consumption. Unmeasured income bills are based on the rateable value of properties. The income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average tariffs and historical billing and consumption information.

Bad debts

The bad debt provision is calculated by applying recovery rates to an aged debt profile to ensure that the age of debt not covered by the provision is an accurate reflection of the recoverability of debt.

Research and development

Expenditure on research and development is charged to the profit and loss account as it is incurred.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

1 Accounting policies (continued)

Capital Instruments

The Company has adopted the provisions of Financial Reporting Standard 4 'Capital instruments' ("FRS 4") which requires the amount of shareholders' funds attributable to equity and non-equity interests to be separately disclosed.

The issue costs of capital instruments have been amortised over the life of the financial instrument to which they relate.

Premiums received on issue of debt instruments are credited to the profit and loss account over the term of the debt at a constant rate on the carrying amount.

The carrying value of index-linked debt instruments is adjusted for the annual movement in the retail price index. The change in value arising from indexation is charged or credited to the profit and loss account in the year in which it arises.

Foreign currencies

Individual transactions denominated in foreign currencies are translated into sterling at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing at the balance sheet date or at a contracted rate where appropriate. Profits and losses on both individual currency transactions settled during the year and unsettled monetary assets and liabilities are dealt with in the profit and loss account

Tangible fixed assets

- i) Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) comprise a network of systems.

Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service, is treated as an addition to fixed assets and is stated at cost after deducting grants and contributions. Staff costs represent those costs directly related to the construction of a specific infrastructure asset and are capitalised as part of infrastructure assets on the basis of the amount of time spent by individuals on capital projects.

The depreciation charge for infrastructure assets is the estimated level of annualised expenditure required to maintain the operating capability of the network and is based on the asset management plan determined by the water industry regulator as part of the price regulation process. The asset management plan is developed from historical experience combined with a rolling programme of reviews of the condition of the infrastructure assets.

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

1 Accounting policies (continued)

Tangible fixed assets(continued)

ii) Other assets (including overground assets, plant and equipment) are stated at cost less accumulated depreciation. Other assets are depreciated on the straight-line method over their estimated operating lives which are principally as follows:

	Years
Buildings	10 - 60
Operational structures	15 - 80
Fixed plant	10 - 40
Vehicles, computers and mobile plant	3 - 10

Operational structures are assets used for wastewater and water treatment purposes. These include water tanks and similar assets.

iii) Freehold land is not depreciated.

Assets in the course of construction are not depreciated until they are commissioned. Commissioning is deemed to occur when a new works is officially taken over from the contractor following completion of performance and take-over tests.

Grants and contributions

Capital grants and customer contributions in respect of additions to non-infrastructure fixed assets are treated as deferred income and released to the profit and loss account over the estimated operational lives of the related assets in accordance with the provisions of the Companies Act.

Grants and capital contributions received relating to infrastructure assets have been deducted from the cost of fixed assets as permitted by Statement of Standard Accounting Practice (SSAP) 4. This is not in accordance with Schedule 4 of the Companies Act 1985 which requires fixed assets to be stated at their purchase price or production cost. The Act does not permit the deduction of contributions, hence these would have been accounted for as deferred income.

This departure from the requirements of the Act is, in the opinion of the directors, necessary for the accounts to give a true and fair view because infrastructure assets do not have determinable finite lives. Accordingly related capital contributions would not be recognised in the profit and loss account. The effect of this treatment on tangible fixed assets is disclosed in note 9.

Revenue grants and contributions are credited to the profit and loss account in the year to which they relate.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

1 Accounting policies (continued)

Leased assets

Fixed assets leased to the Company under finance leases are capitalised and depreciated in line with the Company's depreciation policy. The interest element of finance lease repayments is charged to the profit and loss account in proportion to the balance of the capital repayments outstanding.

Rentals payable under operating leases are charged to profit and loss account as incurred.

Fixed Asset Investments

Investments held as fixed assets are stated at cost, less provision, if appropriate, for any impairment in value other than a temporary impairment in value. The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable

Stocks

Stocks are valued at the lower of cost and net realisable value.

Taxation

The taxation charge in the profit and loss account is based on the profit for the year as adjusted for disallowable and non-taxable items using current rates and takes into account tax deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date, calculated at the rate at which it is expected the tax will arise in accordance with Financial Reporting Standard 19 "Deferred Tax". ("FRS 19") Deferred taxation balances are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Pensions

SWS operates pension schemes which cover the majority of the employees. A valuation of the defined benefits pension schemes is normally conducted by an independent actuary every three years. In accordance with Statement of Standard Accounting Practice (SSAP) 24, the regular cost of providing pensions and related benefits and any variations from regular cost arising from the actuarial valuations are charged to the profit and loss account over the expected remaining service lives of current employees following consultations with the actuary. Any difference between the charge to the profit and loss account and the actual contributions paid to the pension schemes is included as an asset or liability in the balance sheet. The Company has also adopted the disclosure requirements of FRS17.

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

1 Accounting policies (continued)

Provisions

An environmental provision is made in accordance with FRS12 for the costs relating to the decommissioning of abandoned sites. No reimbursement is expected. The period over which the provision will be utilised cannot be determined thus the provision is not discounted.

2 Segmental analysis

The directors believe that the whole of SWS's activities constitute a single class of business. The Company's turnover is generated wholly from within the UK.

3 Classification of turnover and revenue costs

Turnover represents the income receivable for providing water supply and wastewater services and is generated wholly in the United Kingdom.

Cost of sales reflects the direct costs of providing water supply and wastewater services. Administrative expenses comprise the indirect costs of the business. Other operating income relates to rents receivable.

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):	2005	2004
	£m	£m
Staff costs (note 5a)	51.9	51.7
Depreciation on		
- owned assets	118.2	108.1
- assets held under finance leases	0.3	0.4
	<u>118.5</u>	<u>108.5</u>
Rentals under operating leases	4.1	4.9
Research and development expenditure	1.5	1.7
Release of grants and contributions (note 17)	(2.1)	(1.9)
Auditors' remuneration for audit work	0.2	0.2
Auditors' remuneration for non-audit services to the company	0.1	0.1

Auditors' remuneration of £1.4m was capitalised in the year to 31 March 2004 as part of the debt issue costs, in accordance with FRS 4, and has been offset against the loans (notes 14 and 15)

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

5 Employee information

	2005 £m	2004 £m
(a) Employee costs (including directors' emoluments):		
Wages and salaries	52.7	52.7
Social security costs	4.2	4.3
Pension costs	<u>11.7</u>	<u>10.7</u>
 Total employee costs	 68.6	 67.7
 Less: charged as capital expenditure	 <u>(16.7)</u>	 <u>(16.0)</u>
 Charged to the profit and loss account	 <u>51.9</u>	 <u>51.7</u>

Employee costs that are charged as capital expenditure are those directly related to the construction or acquisition of assets.

	2005 No.	2004 No.
(b) Average number of persons employed		
Operations	1,142	1,177
Project Delivery	65	66
Customer Services	528	516
Corporate Centre	<u>327</u>	<u>336</u>
	<u>2,062</u>	<u>2,095</u>

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

6 Net interest and similar charges

	2005 £m	2004 £m
Interest payable on bank loans and overdraft	-	(0.7)
Interest payable on other loans	(152.3)	(126.2)
Indexation	(19.0)	(8.7)
Amortisation of issue costs	(2.5)	(1.7)
Amortisation of bond premium	0.5	-
Total interest payable	(173.3)	(137.3)
Interest receivable from Southern Water Services Group Limited	57.1	39.4
Other interest receivable	13.6	4.5
Net interest charge	(102.6)	(93.4)

For the years ended 31 March 2004 and 31 March 2005, the Company paid interest of £125.9m and £152.2m respectively to Group companies.

7 Tax on profit on ordinary activities

	2005 £m	2004 £m
Current tax:		
UK corporation tax on profits for the year at 30% (2004: 30%)	17.1	19.4
Adjustment in respect of prior years	(8.4)	3.3
	8.7	22.7
Deferred tax:		
Origination and reversal of timing differences	9.3	6.6
Adjustment in respect of prior years	-	(2.7)
Total deferred tax	9.3	3.9
Total tax on profit on ordinary activities	18.0	26.6

The rate of current tax charge on profit on ordinary activities varied from the standard rate of corporation tax due to the following factors:

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

7 Tax on profit on ordinary activities (continued)

	2005 £m	2004 £m
Profit on ordinary activities before tax	85.1	85.0
Current tax:		
UK corporation tax rate at 30% (2004: 30%) on profit for the year	25.6	25.5
Adjustments in respect of prior years	(8.4)	3.3
Other differences	0.1	0.7
Utilisation of capital losses	-	(1.2)
Permanent differences	0.7	1.0
Tax charge on ordinary activities	18.0	29.3
Effect of deferred tax	(9.3)	(6.6)
Current tax charge for year	8.7	22.7

8 Dividends per share

	2005 £ per ordinary share	2004 £ per ordinary share	2005 £m	2004 £m
Ordinary shares				
Interim dividend –23 April	-	267.86	-	15.0
Interim dividend –30 June	178.57	-	10.0	-
Interim dividend –23 July	-	196.43	-	11.0
Interim dividend –30 Sept	178.57	134.93	10.0	7.6
Interim dividend –31 Dec	178.57	182.56	10.0	10.2
Interim dividend –31 Mar	178.57	174.62	10.0	9.8
Total interim dividend	714.28	956.40	40.0	53.6
Final dividend	89.29	60.71	5.0	3.4
Total ordinary dividend	803.57	1,017.11	45.0	57.0
Preference shares				
Class A				
Interim dividend – 30 Sept	20.00	7.78	3.0	1.2
Interim dividend – 31 Mar	20.00	20.00	3.0	3.0
Class B				
Interim dividend – 30 Sept	35.00	13.61	3.8	1.5
Interim dividend – 31 Mar	35.00	35.00	3.9	3.8
Total preference dividend	110.00	76.39	13.7	9.5
Total dividends	913.57	1,093.50	58.7	66.5

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

9 Fixed assets and capital commitments

(a) Tangible assets

	Freehold land & buildings	Plant & machinery	Infra- structure assets	Assets in the course of const- ruction	Other	Total
	£m	£m	£m	£m	£m	£m
Cost:						
At 1 April 2004	890.0	936.3	1,262.0	243.5	293.0	3,624.8
Additions	5.9	7.9	8.5	140.9	5.5	168.7
Transfers	37.0	63.2	45.7	(169.3)	23.4	-
Grants & contributions	-	-	(6.7)	-	-	(6.7)
Disposals	-	-	(1.0)	-	(9.9)	(10.9)
At 31 March 2005	932.9	1,007.4	1,308.5	215.1	312.0	3,775.9
Depreciation:						
At 1 April 2004	208.6	263.3	277.9	-	163.5	913.3
Charge for the year	24.9	38.6	29.5	-	25.5	118.5
Disposals	-	-	(1.0)	-	(9.8)	(10.8)
At 31 March 2005	233.5	301.9	306.4	-	179.2	1,021.0
Net book value:						
At 31 March 2005	699.4	705.5	1,002.1	215.1	132.8	2,754.9
At 31 March 2004	681.4	673.0	984.1	243.5	129.5	2,711.5

Of the additions and transfers into infrastructure assets, the amount spent on infrastructure renewals during the years ended 31 March 2004 and 31 March 2005 was £32.0m and £21.2m, respectively. Of the grants and contributions set against infrastructure assets during the years ended 31 March 2004 and 31 March 2005, £3.9m and £3.0m respectively relates to infrastructure renewals.

For the years ended 31 March 2004 and 31 March 2005, the net book value of infrastructure assets is stated after deducting grants and contributions since privatisation of £132.3m and £139.0m, respectively.

Freehold land is stated at a cost of £42.3m and £43.6m at 31 March 2004 and 31 March 2005, respectively, and is not depreciated.

Other assets relate primarily to computer equipment, meter reading devices and motor vehicles.

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

9 Fixed assets and capital commitments (continued)

Assets held under finance leases are capitalised and included in plant and machinery:

	2005 £m	2004 £m
Cost	11.7	11.7
Aggregate depreciation	(7.8)	(7.5)
Net book amount	3.9	4.2

(b) Capital commitments

	2005 £m	2004 £m
In respect of contracts placed	69.1	105.7

10 Fixed asset investments

	2005 £m	2004 £m
Shares in group undertakings		
At 1 April	29.2	-
Additions in year	-	29.2
At 31 March	29.2	29.2

On the 23 July 2003 SWS acquired all the issued shares of SWSF, a company incorporated in the Cayman Islands. The principal activity of the company is to raise debt finance.

11 Stocks

	2005 £m	2004 £m
Raw materials	0.7	1.2
Work in progress	0.3	0.2
	1.0	1.4

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

12 Debtors: amounts falling due within one year

	2005 £m	2004 £m
Trade debtors	56.9	59.0
Unbilled income	37.2	35.9
Amounts owed by group undertakings	0.2	1.9
Prepayments	2.0	2.0
Other debtors	9.8	5.9
	106.1	104.7

13 Debtors: amounts falling due after one year

	2005 £m	2004 £m
Loan to Southern Water Services Group Limited	812.3	816.6

The loan to Southern Water Services Group Limited is secured on the assets held under the Southern Water Services Group Security agreement and repayable on 31 July 2052 with interest payable at 7%.

14 Creditors: amounts falling due within one year

	2005 £m	2004 £m
Bank overdraft	1.1	2.5
Trade creditors	11.0	18.9
Loans from group undertakings (see below)	30.3	30.3
Capital creditors and capital accruals	69.2	90.0
Amounts owed to group undertakings	0.5	3.8
Corporation tax	1.0	7.3
Other taxation and social security	1.4	1.5
Other accruals and deferred revenue	78.3	70.0
Bond premium deferred	0.7	-
Debt issue costs (note 15)	(2.5)	(2.5)
Dividend payable	5.0	3.4
	196.0	225.2

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

14 Creditors: amounts falling due within one year (continued)

The loan from group undertakings is unsecured, interest free, and shall be repayable in whole or part upon demand at any time, provided that:

- (a) on the date of such demand, no class A debt is outstanding, no class B debt is outstanding and no mezzanine debt is outstanding; or
- (b) the consent of the security trustee is given.

15 Creditors: amounts falling due after more than one year

	2005 £m	2004 £m
Loans and other borrowings:		
Loan from SWSF Limited	2,287.5	2,111.9
Bond premium deferred	17.3	-
Debt issue costs	(47.7)	(49.5)
	2,257.1	2,062.4
	2005 £m	2004 £m
Repayments fall due as follows:		
Between two and five years	300.0	300.0
After five years not by instalments	1,987.5	1,811.9
	2,287.5	2,111.9

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

15 Creditors: amounts falling due after more than one year (continued)

As part of the Southern Water Group refinancing on 23 July 2003 SWSF raised new debt in the financial markets and on-lent the borrowings to SWS. In July 2004 SWSF raised a further £175m in the financial markets which included a premium of £18.5m. The debt has then been on-lent to SWS. Issue costs of £1.3m were paid and recharged to SWS.

Under the loan agreements between SWS and SWSF, SWSF on-lends an amount equal to each bond or other debt raised at the same interest rate plus 0.01%. Therefore each individual back to back inter company loan has been separately disclosed.

An analysis of the loans is shown below: -

Loans	2005	2004
	£m	£m
Class A £350m 6.202% fixed rate 2029	350.0	350.0
Class A £150m 3.716% index linked 2034	157.2	152.6
Class A £35m 3.716% index linked 2034	36.7	35.6
Class A £300m 6.185% fixed rate 2007	300.0	300.0
Class A £350m 6.650% fixed rate 2026	350.0	350.0
Class A £150m 3.826% index linked 2023	157.3	152.9
Class A £120m 6.935% fixed rate 2013 (note (i) below)	120.0	120.0
Class B £250m 7.879% fixed rate 2038 (note (ii) below)	250.0	250.0
Artesian £165m 4.086% index linked 2033	173.0	167.6
Artesian £156.5m 3.645% index linked 2032	160.1	-
Senior mezzanine £127.2m 11.97% fixed rate 2038 (note (iii) below)	127.2	127.2
Junior mezzanine £106m 16.01% fixed rate 2038	106.0	106.0
Debt issue costs	(47.7)	(49.5)
Bond premium deferred	17.3	
	<u>2,257.1</u>	<u>2,062.4</u>

These loans are guaranteed and secured pursuant to a guarantee and security agreement (the Security Agreement). The agreement is over the entire property, assets, rights and undertaking of each of SWS, SWSF, SWS Holdings Limited, and SWS Group Holdings Limited. In the case of SWS, this is to the extent permitted by the Water Industry Act 1991 and Licence.

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

15 Creditors: amounts falling due after more than one year (continued)

Debt issue costs represent issue fees paid to SWSF. These are being amortised over the weighted average life of the loan advances noted above. As at 31 March 2005 debt issue costs amounted to £50.2m of which £2.5m represents the short-term amount which is disclosed separately in note 14.

Notes:

- (i) The interest rate on the class A6 £120m is fixed at 6.935% until March 2009 when it reverts to LIBOR plus 2.95% with a premium of 0.01%.
- (ii) The interest rate on the class B1 £250m is fixed at 7.879% until March 2014 when it reverts to LIBOR plus a margin to be determined with a premium of 0.01%.
- (iii) The interest rate on the senior mezzanine £125m loan is fixed at 11.97% until March 2022 when it reverts to LIBOR plus 6.25% with a premium of 0.01%. For the remaining senior mezzanine loan of £2.2m the interest rate is LIBOR plus 6.25% with a premium of 0.01%.

16 Provision for liabilities and charges

	2005 £m	2004 £m
(a) Environmental obligations		
At 1 April	2.9	3.1
Written back	(1.2)	-
Utilised in year	(0.4)	(0.2)
At 31 March	1.3	2.9
(b) Deferred taxation		
Accelerated capital allowances	392.7	383.4
Other timing differences	(10.4)	(10.4)
Deferred taxation	382.3	373.0
Total	383.6	375.9

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

16 Provision for liabilities and charges (continued)

The environmental provision relates to costs for the decommissioning of abandoned sites. No reimbursement is expected. The period over which the provision will be utilised cannot be determined thus the provision is not discounted. Discounting the provision would not materially effect its final value.

	2005 £m	2004 £m
Movement in deferred tax provision:		
Deferred tax provided at 1 April	373.0	369.1
Deferred tax charge in Profit and Loss Account	9.3	3.9
Deferred tax provided at 31 March	<u>382.3</u>	<u>373.0</u>

17 Grants and contributions

	£m
At 1 April 2004	42.5
Receivable in year	3.3
Released to profit and loss account	(2.1)
At 31 March 2005	<u>43.7</u>

These grants and contributions relate to non-infrastructure assets.

18 Share capital

	2005 £m	2004 £m
Equity shares		
Authorised		
46,050,000 ordinary shares of £1 each	46.1	46.1
Non equity shares		
Preference shares		
150,000 Class A1 shares of £1 each	0.2	0.2
150,000 Class A2 shares of £0.01 each	0.0	0.0
110,000 Class B shares of £1 each	<u>0.1</u>	<u>0.1</u>
Allotted, called up and fully paid		
56,000 ordinary shares of £1 each	0.1	0.1
Non equity shares		
Preference shares issued		
150,000 Class A1 shares of £1 each	0.2	0.2
150,000 Class A2 shares of £0.01 each	0.0	0.0
110,000 Class B shares of £1 each	<u>0.1</u>	<u>0.1</u>
	<u>0.4</u>	<u>0.4</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

18 Share capital (continued)

The cumulative preference shares, which do not carry voting rights, were issued on the 23 July 2003, and are redeemable at their nominal value plus the share premium paid, on 31 March 2038, or at the Company's option any time earlier. Class A1 and B shares were issued at £1,000 per share and the amounts received totalled £260.0m for both classes of shares. Class A2 were issued for £0.01 per share and the amount received totalled £1,500. Shareholders are entitled to receive dividends as follows: -

Class A1

- £40 per share

Class A2

- the base value dividend plus an amount for company outperformance and any savings arising from any refinancing of the mezzanine debt. The base value is £nil per share increasing by £15 every five years. (Outperformance from 1 April 2005 onwards is the difference between the company's audited 'profit before interest and taxation' and the targeted 'profit before interest and taxation' as determined by OFWAT in the periodic review. Outperformance for the current year is measured against numbers agreed as part of the refinancing).

Class B

- £70 per share

These dividends are payable on the 31 March and 30 September each year. On winding up the preference shareholders rank above ordinary shareholders with the preference shareholders being paid in order of Class A1, Class A2 then Class B.

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

19 Reconciliation of movement in shareholders' funds

	Called up share capital £m	Share premium £m	Profit and loss account £m	Total £m
At 1 April 2003	0.1	46.3	755.7	802.1
Issue of preference shares	0.3	259.7	-	260.0
Profit before dividends paid	-	-	58.4	58.4
Dividends paid	-	-	(66.5)	(66.5)
At 31 March 2004	<u>0.4</u>	<u>306.0</u>	<u>747.6</u>	<u>1,054.0</u>
At 1 April 2004	0.4	306.0	747.6	1,054.0
Profit before dividends paid	-	-	67.2	67.2
Dividends paid	-	-	(58.7)	(58.7)
At 31 March 2005	<u>0.4</u>	<u>306.0</u>	<u>756.1</u>	<u>1,062.5</u>

20 Cash Flow from operating activities

	2005 £m	2004 £m
Continuing operations		
Operating profit and profit on ordinary activities before interest and taxation	184.7	174.6
Depreciation charge	118.5	108.5
Amortisation of grants and contributions	(2.1)	(1.9)
Decrease in environmental provision	(1.6)	(0.2)
Decrease in stocks	0.4	0.4
Decrease / (increase) in debtors	2.8	(5.3)
Decrease in creditors	(1.1)	(26.3)
Total net cash inflow from operating activities	<u>301.6</u>	<u>249.8</u>

21 Pensions

The Company accounted for pension costs during the year under SSAP 24, but has also made the detailed disclosures required under the transitional arrangements under FRS 17. These disclosures show a net FRS 17 deficit (after deferred tax) of £98.0 million (2004 deficit: £104.5m). The deficit has arisen mainly as a result of turbulence in the stock market and low interest rates.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

21 Pensions (continued)

Pension schemes operated

At 1 April 2004 the Company principally operated two schemes, details of which are shown below:

1. Southern Water Pension Scheme (SWPS), a funded defined benefit scheme, which was closed to new members in 31 December 1998 but re-opened in July 2003. This scheme has nine trustee directors.
2. Southern Water Executive Pension Scheme (SWEPS), which is a funded defined benefit scheme. This scheme has four trustee directors.

The assets of the schemes are held separately from those of the company. State Street Bank and Trust Company acts as custodian for the defined benefit schemes and asset management is delegated to external fund managers.

The two schemes were merged together as SWPS on 1 April 2005, at which point it was closed to new members.

A third company stakeholder scheme, which is a defined contribution scheme, is also available.

Members of all schemes receive an annual statement of their accrued benefits.

The latest actuarial valuations of the Southern Water Pension Scheme (SWPS) and Southern Water Services Executive Pension (SWEPS) schemes were carried out as at 31 March 2004 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments, the rate of future pensionable salary increases and the level of pension increases.

For closed schemes under this method the current service cost will increase as the members of the schemes approach retirement.

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

21 Pensions (continued)

The principal assumptions made by the actuary in the valuation were as follows:

	2004 SWPS % pa	2004 SWEPS % pa
Return on investments	6.3	5.6
Salary growth	4.3	4.3
Pension increases on the excess over guaranteed minimum pensions	2.8	2.8

The assets of the scheme had a market value of £270.4m for the SWPS and £21.9m for the SWEPS at 31 March 2004. This was sufficient to cover 78% and 82% of the benefits of SWPS and SWEPS respectively, that had accrued to members at that date, after allowing for expected future increases in earnings.

Regular pension costs under SSAP 24

Pension costs for the SWPS and SWEPS during the year were £11.7m (2004 - £10.1m). The pension cost for the year was greater than the actual contribution paid of £10.4m (2004 - £7.4m) resulting in an accrual in the balance sheet at 31 March 2005 of £7.2m (2004 - £5.9m). The increased cost is in relation to the fund deficits.

FRS 17 - disclosures

The Company is following the transitional arrangements under FRS 17 and the required disclosures are made on the following page.

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

21 Pensions (continued)

FRS 17 - assumptions, asset, liability and reserves disclosures

Formal actuarial funding valuations of the two principal defined benefit schemes in the UK were carried out at 1 April 2004 and updated to 31 March 2005 by a qualified independent actuary. The following disclosures are combined for the SWPS and SWEPS. The major assumptions used by the actuary are set out in the table below.

	2005	2004	2003
	% pa	% pa	% pa
Price inflation	2.5	2.9	2.5
Rate of increase in salaries (plus an age-related promotional scale)	4.0	4.4	4.0
Rate of increase of pensions in payment	2.5	2.9	2.5
Rate of increase for deferred pensions	2.5	2.9	2.5
Discount rate	5.6	5.6	5.6
Expected return on assets – SWPS	7.5	7.3	7.5
Expected return on assets – SWEPS	5.5	5.6	5.6

The assets and liabilities in the schemes and the expected rates of return at 31 March 2005, 31 March 2004 and 31 March 2003 were:

	Rate of return	Rate of return	Rate of return	Value at	Value at	Value at
	2005	2004	2003	2005	2004	2003
	%	%	%	£m	£m	£m
Equities	8.1%	8.4%	8.7%	223.5	192.6	156.4
Bonds	4.7%	4.8%	4.7%	94.1	87.9	78.6
Cash	3.9%	3.9%	4.0%	7.5	4.9	1.9
Total market value of Plan assets				325.1	285.4	236.9
Total value of Plan liabilities				(465.1)	(434.6)	(379.1)
Accrued deficit in the Plan				(140.0)	(149.2)	(142.2)
Related deferred tax asset				42.0	44.7	42.7
Net pension liability				(98.0)	(104.5)	(99.5)

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

21 Pensions (continued)

FRS 17 - assumptions, asset, liability and reserves disclosures

If FRS 17 had been adopted and therefore the pension liabilities as discussed above were to be recognised, the Company's net assets and profit and loss account after taking account of the effect of both pension schemes would have been as follows:

	2005	2004
	£m	£m
Shareholders' funds		
As reported (note 19)	1,062.5	1,054.0
SSAP 24 accrual in relation to SWPS and SWEPS, net of related deferred tax	5.0	4.1
FRS 17 net pension liability as above	(98.0)	(104.5)
As adjusted for FRS 17	<u>969.5</u>	<u>953.6</u>
Profit and loss account		
As reported (note 19)	756.1	747.6
SSAP 24 accrual as above	5.0	4.1
FRS 17 net pension liability as above	(98.0)	(104.5)
As adjusted for FRS 17	<u>663.1</u>	<u>647.2</u>

FRS 17 – profit and loss account disclosures

The following amounts would have been recognised in the profit and loss account for the year to 31 March 2005 under the requirements of FRS17.

Analysis of amounts charged to operating profit:

	2005	2004
	£m	£m
Employer's current service cost	10.0	7.2
Employer's past service costs	0.3	0.2
Total charged to operating profit	<u>10.3</u>	<u>7.4</u>

Analysis of other amounts credited to the profit and loss account:

	2005	2004
	£m	£m
(Gain) on settlements	-	(0.2)
Net gain credited to profit and loss account	<u>-</u>	<u>(0.2)</u>

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

21 Pensions (continued)

Analysis of the amount charged to other finance income:

	2005	2004
	£m	£m
Interest on pension scheme liabilities	24.3	21.1
Expected return on pension scheme assets	(20.3)	(17.0)
Net charge to other finance income	4.0	4.1
Total charge before tax	14.3	11.3

Analysis of the amounts recognised in STRGL:

	2005	2004
	£m	£m
Actuarial return less expected return on pension scheme assets	19.2	33.4
Experience gain/(loss) arising on scheme liabilities	1.8	(6.8)
Loss on change of assumptions (financial and demographic)	(7.9)	(27.5)
Total gain/(loss) recognised in STRGL before Adjustment for tax	13.1	(0.9)

Analysis of the movement in the schemes' deficits during the year

	2005	2004
	£m	£m
Deficit in the scheme at 1 April	(149.2)	(142.2)
Employer's contributions	10.4	7.4
Employer's current service cost	(10.0)	(7.2)
Employer's past service cost	(0.3)	(0.2)
Settlement gain	-	0.2
Acquisitions loss	-	(2.2)
Other finance income	(4.0)	(4.1)
Actuarial gain/(loss)	13.1	(0.9)
Deficit in the scheme at end of year	(140.0)	(149.2)

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

22 Pensions (continued)

Details of experience gains and losses for the year to 31 March 2005 are as follows:

	2005	2004	2003
a. Actuarial (gain) on scheme assets			
Amount (£m)	(19.2)	(34.0)	77.6
Percentage of the scheme assets	5.9%	11.9%	32.8%
b. Experience (gain)/loss on scheme liabilities			
Amount (£m)	(1.8)	6.8	3.0
Percentage of the present value of the scheme liabilities	0.4%	1.6%	0.8%
c. Total actuarial (gain)/loss recognised in STRGL			
Amount (£m)	(13.1)	0.3	100.0
Percentage of the present value of the scheme liabilities	2.9%	0.1%	26.4%

22 Contingent liabilities

	2005 £m	2004 £m
Capital claims	<u>8.7</u>	<u>21.9</u>

Contractors submit claims to the Company for the estimated final cost of their works. These claims are reviewed to assess where the liability for the costs rests and the amount that will actually be settled. The expected amount is included within capital creditors and a further sum is identified as a contingent liability, representing a proportion of the difference between the contractor's claim and Southern Water's valuation.

23 Financial commitments

	2005 £m	2004 £m
As 31 March 2005, the Company had annual commitments under non-cancellable operating lease agreements in respect of vehicles for which the payment extends over a number of years as follows:		
Expiring within one year	0.4	1.0
Expiring between two and five years	2.7	2.8
	<u>3.1</u>	<u>3.8</u>

Operating leases are charged to the profit and loss account over the lease term

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

24 Directors' emoluments

	2005	2004
	£000	£000
Aggregate emoluments (including benefits in kind)	1,267	1,568
Compensation for loss of office	498	-
	<u>1,765</u>	<u>1,568</u>

Retirement benefits are accruing to five directors under a Southern Water defined benefit scheme.

Details of emoluments and benefits for the highest paid director:

	2005	2004
	£000	£000
Aggregate highest paid director's emoluments and benefits	254	331
Defined benefit scheme: Accrued annual pension at 31 March	-	99
	<u>254</u>	<u>430</u>

25 Related party transactions and ultimate holding company

The immediate parent undertaking is SWS Holdings Limited.

The ultimate parent Company and controlling party is Southern Water Capital Limited, which owns 80.1% of the share capital of Southern Water Investments Limited an intermediate holding company of SWS. The other 19.9% is owned by Veolia Water Investment Limited. The major shareholders in Southern Water Capital Limited are Royal Bank Investments Limited and PPI Investments SP, Inc.

Southern Water Capital Limited prepares consolidated accounts, copies of which may be obtained from the Company Secretary of Southern Water Services Limited, at Southern House, Yeoman Road, Worthing, BN13 3NX.

The transactions and balances with the Company's related parties, as defined by Financial Reporting Standard 8, and the extent of the transactions with them are summarised below.

This includes other companies in the Southern Water group, companies controlled by directors, and the major shareholders.

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

25 Related party transactions and ultimate holding company (continued)

	2005 £m	2004 £m
Debtors: amounts falling due within one year		
SWSF	0.2	1.8
Southern Water Limited	-	0.1
Debtors: amounts falling due after one year		
Loans to Southern Water Services Group Limited	812.3	816.6
Creditors: amounts falling due within one year		
Loan from SWSF	30.3	30.3
Management charges from Southern Water Investments Limited	0.5	1.5
SWSF	-	2.1
Bowsprit Property Limited	-	0.2
Debt issue costs paid to SWSF	(2.5)	(2.5)
Dividend payable to SWS Holdings Limited	5.0	3.4
Bond premium on loan from SWSF	0.7	-
Creditors: amounts falling due after one year		
Loans from SWSF	2,287.5	2,111.9
Bond premium on loan from SWSF	17.3	-
Debt issue costs paid to SWSF	(47.7)	(49.5)
Turnover		
Recharges for consultancy to Veolia Water UK plc	-	0.1
Administration expenses		
Consultancy fees for R Thian paid to Renex Limited	0.1	0.1
Consultancy fees for D Golden paid to Management & Procurement Services Limited	0.1	-
Taxation services provided by Veolia Water UK plc	-	0.1
Interest Payable		
SWSF	152.2	104.8
Southern Water Limited	-	8.0
Southern Water Services Group Limited	-	13.1
Interest Receivable		
Southern Water Services Group Limited	57.1	39.4
SWSF	2.3	1.0
Dividends payable		
SWS Holdings Limited	45.0	57.0

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

26 Post balance sheet event

In April 2005 SWS outsourced some of its key capital investment programme work to '4Delivery Limited', a joint venture vehicle owned by United Utilities (40%), Costain (40%) and Montgomery Watson Harza (20%). Under the contract, 4D is required to manage, design and deliver 255 schemes, which are all stand alone construction projects for the modification or extension of existing water mains, sewers, water supply works and wastewater treatment works. The total value of the contract is approximately £750m.

A subsidiary company of the company, Southern Water Services (Finance) Limited (SWSF) has raised approximately £500m of additional finance in May 2005 and will on-lend this to SWS. The funds will be applied by SWS for its general corporate purposes or used to repay or service the issuer's financial indebtedness.

SOUTHERN WATER SERVICES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN WATER SERVICES LIMITED

We have audited the accounts which comprise the profit and loss account, the balance sheet, the cash flow statement, and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the accounting policy note.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

SOUTHERN WATER SERVICES LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN
WATER SERVICES LIMITED**

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31 March 2005 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

21 June 2005

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London